

Staff Study No 12 sent
Mr. Bundy at his request
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D.J.

State Dept. declassification instructions on file

criticism of Staff Study #12

"Economic Penetration of Underdeveloped Areas by the Communist Bloc."

In general the paper is good, but no account is taken of what we might do in a crisis — a definite worsening of the present int'l political situation. The US might consider going to much greater lengths and these eventualities should be foreseen.

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What should the U.S. attitude be with respect to the acceptance by underdeveloped countries of Soviet bloc offers of trade and economic development assistance?

General Considerations

1. The same basic problem of Soviet bloc economic infiltration exists with respect to all underdeveloped areas of the free world and differs only in emphasis and degree.
2. For the purposes of this paper the problem of trade, as such, between the Communist bloc and the non-Communist underdeveloped areas may be treated rather summarily. The general approach of the U.S. Government, as laid down in the Battle Act and in the pertinent NSC directives, has been to seek the cooperation of the underdeveloped areas of the free world, as well as of the industrially advanced countries, in a system of selective controls over the export of strategic items to the Soviet bloc. For a variety of reasons, some political, some psychological, and some economic, the U.S. has not sought a total embargo on East-West trade. Accordingly, the U.S. does not object to nonstrategic trade between the underdeveloped areas and the European Soviet bloc so long as such trade does not become a means by which the system of strategic trade controls can be undermined or by which the bloc can otherwise extract undue economic and political concessions. As to Communist China and North Korea, the policy of the U.S. has been to endeavor to persuade other free world countries, including the underdeveloped countries, to maintain very stringent export controls in support of the U.N. Resolution of May 18, 1951, and as agreed among the participating countries in the CG/CHINCOM.

3. The principal

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economic assistance to make political gains. It may make capital goods available for export, either on a grant or credit basis or in exchange for foodstuffs or raw materials.

6. The economic growth process has barely begun in south and southeast Asia. There is a tremendous upsurge of aspirations and pressures for fundamental changes in the pattern of life which cannot be accommodated within the foreseeable future unless more rapid economic development takes place. However, there is a gap between the indigenous financial resources and technical skills available and those needed for rapid development. Consequently, free governments in the Asian area look to external assistance to aid them in their task of improving their economies.

7. In Latin America there has been very rapid economic growth since World War II, but living standards are still low. The possibilities for Soviet bloc activity of the kind under consideration here are not provided so much by pressure for even more rapid growth, although that is a factor, but by Latin America's desire to find markets for its exportable commodities, by rather widespread inflation in Latin America, by other imbalances resulting from present rates of economic development, and by social changes.

8. The non-Communist underdeveloped countries are being assisted in the implementation of their development programs by free western nations which extend assistance through various programs, both bilateral and multilateral. The U.S. is the largest contributor of such external economic assistance. Its programs are predicated on the belief that economic advancement through democratic processes is necessary for the maintenance and improvement of the political, economic and social stability essential to world peace.

9. The U.S.

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of the USSR, or alternatively, under the direction of the underdeveloped countries themselves, which could dictate the nature and terms of U.S. assistance by rumor-ing that "Moscow has offered to do this for us."

13. It seems essential, also, for the U.S. to maintain a flexible position, giving us the maximum possible freedom of action to anticipate Soviet economic moves and take appropriate preventive or corrective action. This would indicate an approach dictated by the special and differing circumstances in each country which the Soviet bloc seeks to penetrate. Also indicated is a continuing review of economic development possibilities in the light of these special and differing circumstances. Quite obviously, certain cases of attempted Soviet penetration will be of greater concern to the U.S. than others. Some cases might prove to be sheer bluff, particularly if grandiose in character, and, if allowed to reach abortive conclusions without official U.S. intervention or even cognizance, might net the Soviets propaganda defeats. In other instances, the Soviets might have every intention to fulfill their promises; in such cases the U.S. might or might not wish to make some attempt designed to offset the undesirable effects of the Soviet action, depending, again, upon the general situation and the prevailing special circumstances.

14. In connection with this ad hoc approach to preventing or countering the undesirable effects of Soviet bloc economic penetration, consideration has been given to the possible usefulness and desirability of developing (a) criteria defining those situations in which the U.S. might wish to move in with special measures to thwart or counter Soviet actions, and (b) an arsenal of appropriate or illustrative special measures which might be employed in

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circumstances meeting such criteria. It was concluded, however, that this would be an impracticable exercise. At best, it would be academic; at worst, it might tend to introduce rigidities in thinking within the U.S. Government which could impair the flexibility required to meet future situations or unforeseen circumstances. Moreover, little would seem to be gained by a detailed examination of what the U.S. might have done at various stages in relation to even the known instances of Soviet bloc penetration. While it appears unwise to attempt to stake out in advance specific situations or circumstances in which the U.S. would employ special measures, it does seem necessary to establish at this stage a framework of broad principles within which the examination of specific situations can be made with the purpose of determining whether and what U.S. action might be appropriate and feasible.

15. In accordance with the foregoing line of thinking, and by way of summarizing the discussion to this point, it appears that the wisest general course of action for the U.S. to follow is to consider attempted Soviet economic penetration in the context of the broad programs of U.S. foreign economic policy, including our various technical and developmental assistance programs.

16. Consideration has been given also to the matter of the adequacy or inadequacy of existing U.S. Governmental machinery for examining specific Soviet bloc efforts at economic penetration as they arise and determining whether counter-measures seem appropriate. It is felt that, in general, the ^{economic offense} ~~normal intra- and~~ ^{organization is} ~~inter-agency action processes and existing organization are~~ adequate for dealing with these problems.

17. A final matter which may merit some consideration has to do with psychological warfare methods of countering Soviet bloc economic penetration efforts.

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